REPUBLIC OF CONGO

Unity -Labour-Progress

MINISTRY OF FINANCE AND BUDGET

Report
On the Execution of The State Budget As of 31 March 2018

July 2018

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INTRODUCTION

This report on the State's budget execution for 2018 financial year as of 31 March, is prepared by the Government in accordance with the provisions of section 83 of the organic law on finance laws, paragraph 8, which states that: “The Government shall transmit to the Parliament for information and audit purposes, quarterly reports on budget execution in terms of revenues and expenditures and on the application of the financial law”. These reports are available to the public

The finance law in general and the 2018 State budget in particular, is executed in a context marked by a still difficult economic situation with persistent financial imbalances and, an accumulation of public debt arrears. The business survey conducted by the Bank of Central African States (BEAC) reveals that economic activity is emerging globally from the recession, foreseeing an estimate of real GDP growth of 2 per cent at the end of December 2018, although it remains strongly impacted by the increase in oil production. The non-oil sector is slow to recover, showing signs of slowing down with an estimate real GDP growth of -5, 0 per cent, which still reflects a recession in the sector.

The 2018 State budget is also being executed in a context of deep changes in public finance management instruments. Indeed, after transposing the six (6) guidelines of the Economic Community of Central African States (CEMAC) into the national regulation, the time has come to operationalize all public financial management instruments in order to be in line with international standards.

Politically, the Government has made significant progress on the security situation in the Pool division. A programme for the return, reintegration and support of displaced persons is being developed to enable people to resume their daily economic and social activities.

The State budget forms the basis for negotiations with the International Monetary Fund with a view to concluding an agreement supported by an economic and financial programme: **extended credit facility**. The Government's main objective is: stabilizing macroeconomic balances and strengthening fiscal sustainability with a view to, over time, boosting growth in line with the extended credit facility.

This report presents the fiscal execution on the basis of classifications provided for by the laws in force. Chapter 1 is about the budget execution as of first quarter, the fiscal balance evolution is the subject of the second chapter and cash transactions are the backbone of chapter 3.

1. Reminder of the presentation of 2018 finance law

The 2018 finance law provides a State budget which is adopted in resources at

1 602, 6 billion FCFA and in expenditures at 1 383, 6 billion FCFA, with a level of fiscal revenue higher than expenditures at 219,0 billion FCFA.

The 2018 State budget amounts in large masses (in billion FCFA) as follows:

Revenues:

▪ domestic taxes and duties:	658,3 ;
▪ customs duties and taxes:	121,0 ;
▪ social security contributions:	54,1 ;
▪ donations. :	40,0 ;
▪ oil revenue:	677,5 ;
▪ dividends:	15,0 ;
▪ administrative duties and costs:	12,7 ;
▪ interests and loans:	18,0.

expenditures:

▪ financial costs of the debt :	23,5 ;
▪ wages:	364,0 ;
▪ goods and services:	172,0 ;
▪ transfers:	322,0 ;
▪ investment spending:	263,4.
- *133,0 in MLA and*	
- *130,1 in external resources;*	
▪ other expenditures:	34,0.

The 2018 finance law also includes cash resources amounting to 200, 2 billion FCFA and cash costs to 979, 1 billion FCFA, generating a deficit of 778, 9 billion FCFA.

The resorption of this deficit requires a contribution of 219, 0 billion FCFA from the surplus fiscal balance. There remains a financing need of 559, 9 billion FCFA to be covered by additional resources.

Cash deficit, which emanates mainly from the high level of public debt service, demands to put more efforts in negotiations with the creditors of Congo, to obtain the restructuring of the public debt to make it sustainable.

It should be noted that the 2018 finance law was promulgated on 29 January 2018 and published in February. This delay has had negative consequences on the implementation of the new provisions both in terms of income and expenditures.

For the execution of the 2018 State budget, measures are implemented to improve the performance of the financial departments, control the debt policy and strengthen the financial system.

2. Execution of the State budget as of first quarter 2018

2.1 Fiscal revenue

State revenues consist of tax revenue including those allocated to subsidiary budgets and cash special accounts, donations, social contributions, service revenue, public portfolio revenue and oil revenue.

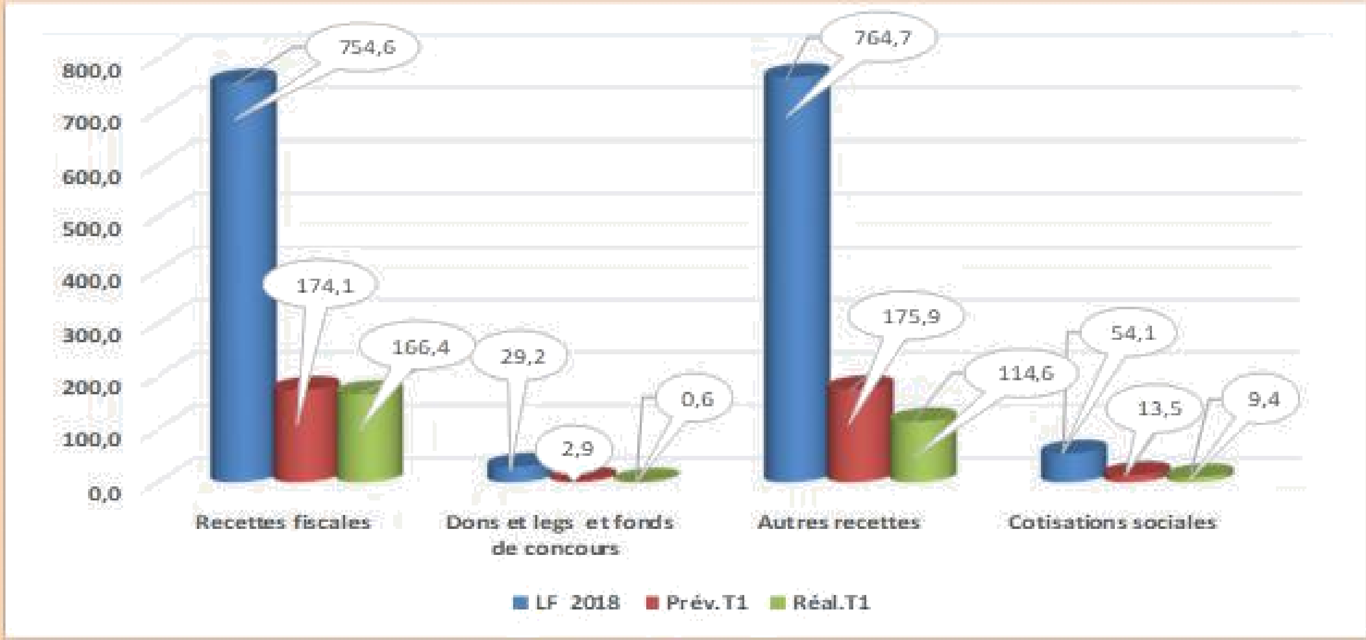
Planned yearly at 1 602, 6 billion FCFA and quarterly at 366, 4 billion FCFA, fiscal revenues are mobilized at 291.0 billion FCFA as of 31 March 2018, or 18, 2 per cent of annual forecasts and 79, 4 of quarterly forecasts. They are presented in the following table and figure:

Table 1: Statement of fiscal revenues as of (in billion FCFA)

	LF 2018	Forec.T 1	Exec.T 1
Tax receipts	754,6	174,1	166,4
Donations, bequests and assistance fund	29,2	2,9	0,6
Other revenues	764,7	175,9	114,6
Social security contributions	54,1	13,5	9,4
Total	**1 602,6**	**366,4**	**291,0**

Source: **DGID_DGDDI_DGT_DEP**

Figure 1 Statement of fiscal revenue mobilization



*Source : **DGB_DEP***

2.1.1. Tax revenue

Tax revenue as a whole remains strongly to the economic situation of the non-oil sector. Although still not perceptible, the reform efforts spurred by CEMAC's economic and financial reform programme and by the Government, will contribute to increasing the tax revenue expected in 2018.

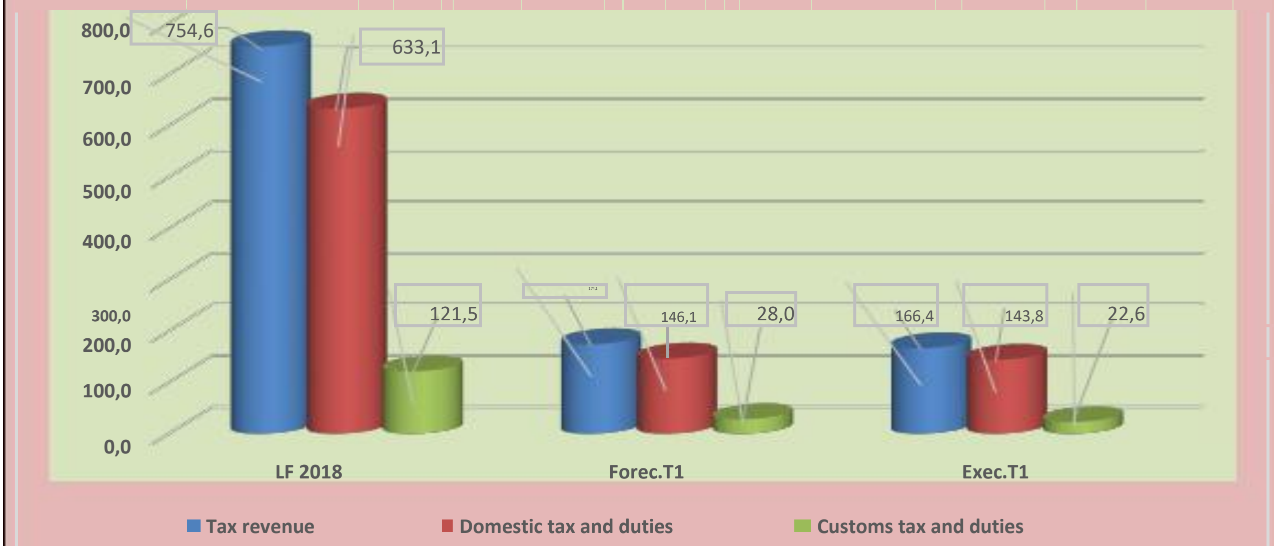
In the first quarter, tax revenue were mobilized at 166, 4 billion FCFA for a quarterly forecast of 174, 1 billion FCFA, representing a performance of 95, 6 per cent compared to the quarterly target.

They are distributed as follows:

- Taxes recovered amounting to 146,1 billion FCFA for quarterly forecast of 146,1 billion FCFA, or 98,4 per cent;
- Customs duties and taxes collected at 22, 6 billion FCFA for a quarterly forecast of 28, 0 billion FCFA, or 80, 7 per cent.

The figure below gives an overview picture of the revenue execution.

Figure 2 Performance of tax revenue as of 1 quarter



Source : ***DGB_DEP***

2.1.1.1 Taxes

For a quarterly forecast of 146, 1 billion FCFA, execution is 143,8 billion, a rate of 98,4 per cent.

The breakdown by nature is as follows:

- ***tax on added value (TAV)***, which still depends on the economic activity of the non-oil sector, is collected at 43,4 billion FCFA, a quarterly execution rate of 91,6 per cent ;
- ***income tax on natural persons (IRPP),*** planned in the first quarter at 29,9 billion, is mobilized for 30,7 billion, or a rate of 102,7 per cent ;
- ***company tax (IS)***, collected at 23,9 billion FCFA for a quarterly forecast of 41,3 billion FCFA, representing an execution rate of 57,9 per cent, this level of collection reflects the balance sheets situation of uncomfortable of several companies;
- ***special tax on companies,*** forecast in the first quarter at 15,3 billion FCFA is collected for 14,4 billion FCFA, representing an achievement rate of 94,1 per cent ;
- ***payroll tax,*** scheduled quarterly at 6,4 billion FCFA, is collected at 5,9 billion FCFA, or 92,2 per cent ;

- ***real estate tax,*** forecast quarterly at 7, 0 billion FCFA, is achieved at 2,5 billion FCFA, or 35,7 per cent.

- ***tax on property values,*** forecast in the first quarter at 8,7 billion FCFA, is collected at 3,3 billion FCFA, or 37,9 per cent ;

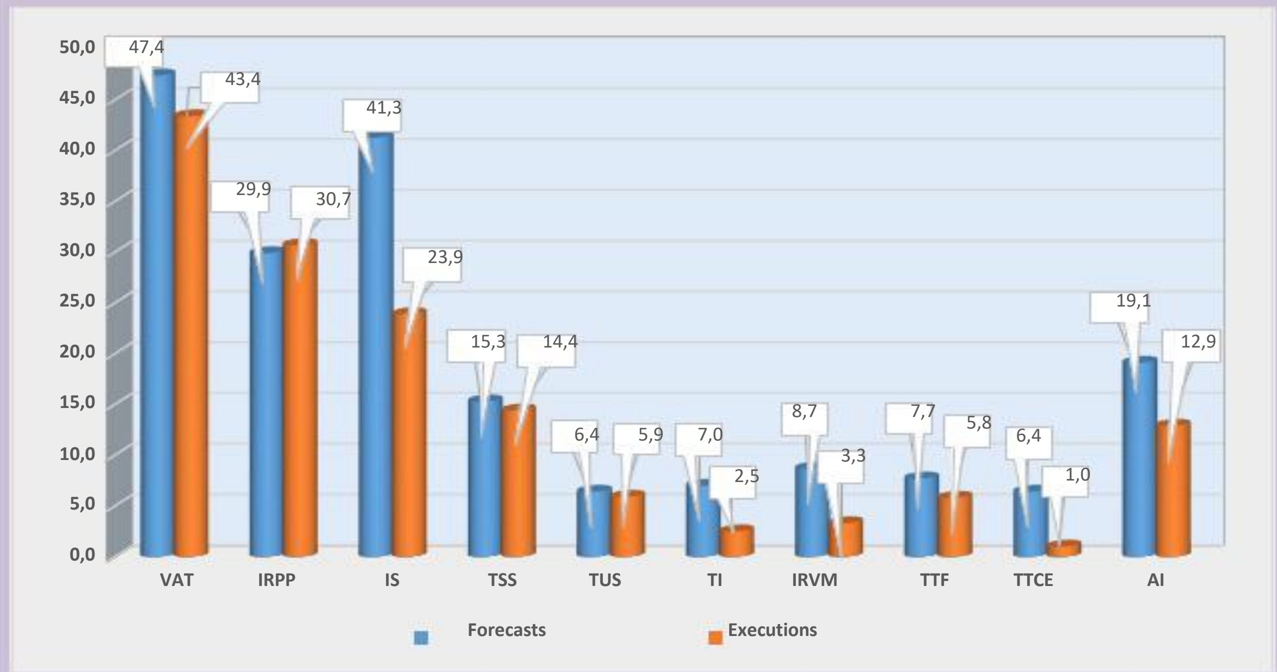
- ***tax on fund transfers***, for a quarterly forecast of 7,7 billion FCFA, the collection is 5,8 billion FCFA, or 75,3 per cent ;

- ***tax on the traffic of electronic communications*** , quarterly forecast at 6,4 billion FCFA, is collected at 1,0 billion FCFA, or 15,6 per cent. The underperformance observed is due to the late application of the provisions of the 2018 finance law in this regard (early June 2018) ;

- ***Other taxes***, quarterly forecast at 19,1 billion FCFA are collected at 12,9 billion FCFA, or 67,5 per cent of the quarterly target.

The following figure shows the execution of the tax by nature in the first quarter 2018.

Figure 3 Execution of the tax by nature in the 1st quarter



Sourc : ***DGB_DEP***

2.1.1.2 Customs duties

The State budget, forecast in customs revenue at a level of 28, 0 billion FCFA is executed as of 31 March 2018 at 22, 6 billion FCFA corresponding to 80, 7 per cent of the quarterly target.

Several elements explain these results, including:

- the economic activity in the non-oil sector, which declined sharply and, resulted in a contraction in the import of goods and services in the first quarter;
- Slowness in the implementation of a number of reforms. ;
- level of exceptional exemptions;

The table below illustrates the level of exemptions during the first quarter.

Table 2: Tax exemptions in the first quarter 2018 (in billion FCFA)

	January	March	April	Total
Exemptions owed to oil sector	23,7	87,1	52,7	**163,5**
Regulatory exemptions	0,8	1,4	0,6	**2,8**
Exceptional exemptions	10,3	16,3	11,6	**38,2**
State contribution to investment	*9,7*	*16,2*	*11,0*	**36,9**
Other exemptions	*0,6*	*0,1*	*0,6*	**1,3**
Total	**34,8**	**104,8**	**64,9**	**204,5**

Sources : **DGID_DGDDI**

2.1.2. Non-tax revenue

Non-tax revenues include (i) donations, (ii) social security contributions (iii), oil revenue, (iv) State revenue portfolio, (v) administrative fees and costs.

2.1.2.1. Donations

The donations expected in the first quarter are mobilized at 0, 6 billion FCFA for a quarterly forecast of 2, 9 billion FCFA, an execution rate of 20,6 per cent.. These are mainly HIPC (Heavily Indebted Poor Countries) funds for projects already being completed.

The mobilization of donations remains largely linked to the management conditions of co-financed projects, subject to the financing of the Congolese counterpart, which is now facing the cash flow difficulties of the State.

Improving the capacities to mobilize donations will require a relaxation of conditions of their release. In this vein, an action will be carried out by project with the partners in order to renegotiate the possible level of the counterpart given the current crisis. Moreover, the tracking and auditing of public development assistance will be strengthened, in order to capture all the flows of transactions carried out on these donations, to propose an effective policy to pool all financing instruments.

2.1.2.2. Social security contributions

Mainly comprised of employers and workers' shares of civil servants and contract agents of the State, social contributions amount to 13, 5 billion FCFA in the first quarter. Compared with 2017, the level of 2018 social contributions seems much lower, at the same period, because of the decline in the number of contributors in the civil service.

The restructuring is necessary, otherwise, the deficit of the security funds will increase with the consequent accumulation of pension arrears; monthly contributions do not cover the corresponding expenses. In addition to the reforms to be carried out, it is recommended to operationalize the automatic retirement. To achieve this, the following constraints should be removed:

- The regularization of the Status of advancements of certain retired employers.
- The catch up of contributions of retired employers on the basis of their latest non-mandated index. Indeed, some employers stopped working during being promoted. The last index on the advancement order being the main element of pension calculation, the balance index does not always reflect the employer's actual situation. To do this, it is envisaged in a short time the establishment of liquidation mechanism, mandate and payment of these contributions in the social security funds;
- Systematic transfer of contributions to the funds at the moment of paying the salaries of all State's employers

2.1.2.3. Other revenues

They consist of oil revenue, administrative fees and costs as well as investment interests. For an annual forecast of 764, 7 billion FCFA, they are mobilized at 109, 4 billion FCFA, or 14, 3 per cent of the annual forecast.

a) Oil revenue

Concerning oil revenue, it has now been agreed, according to the gross product rule and for traceability reasons, all State rights allocated or not, whether in kind or valued for full accounting of oil revenue.

Concerning a finance law forecast of 173, 6 billion FCFA, oil revenue execution is 112, 5 billion FCFA, representing a realization rate of 64, 8 per cent of the quarterly target.

The sale of cargoes generated:

- 94,4 billion FCFA in sales by in respect of the Congo National Oil Company (SNPC);

- 12, 9 billion FCFA of sales by other oil companies.

In the same period, the situation is better compared to that of 2017, due to the accounting of all State rights, directly assigned to certain commitments and commercial agreements relating to investments directly entrusted to oil companies (ENI) with the Congo power plant and others).

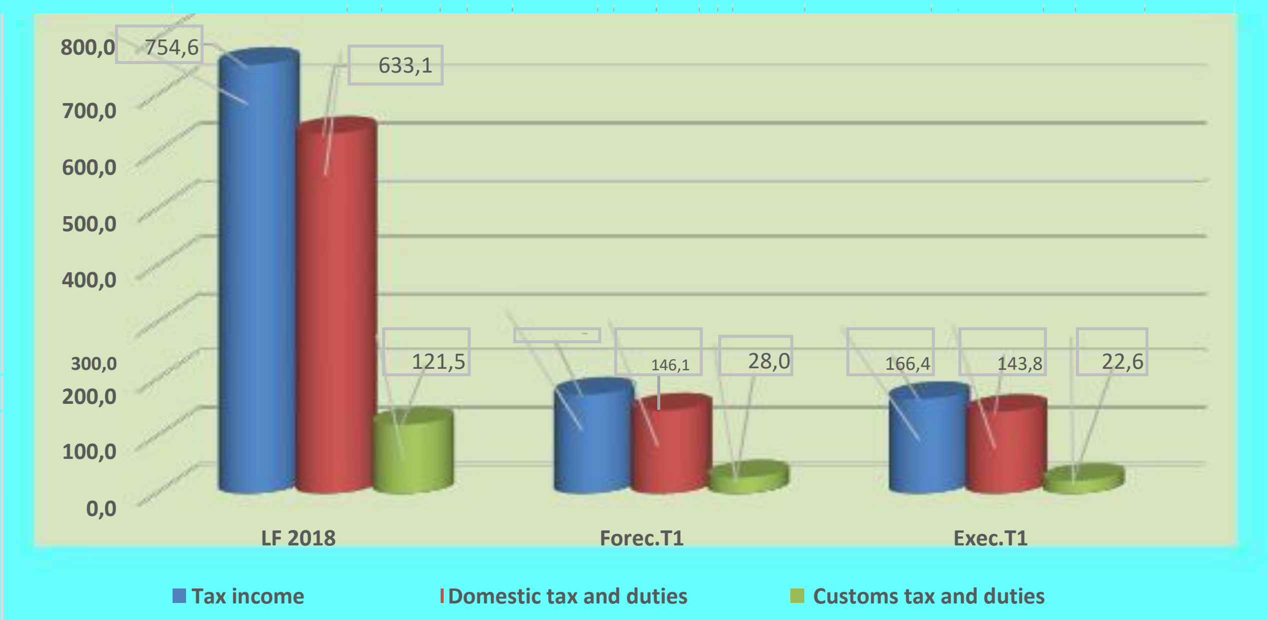
b) State portfolio revenue

Projected at 3, 3 billion FCFA, portfolio receipts, consisting of investment interests and dividends, are collected at 0, 6 billion FCFA. This is mainly a collection on investment interest, in particular the repayment of interests on loans granted to certain structures. As of first quarter, the situation almost reflected that of 2017 at the same period when this level was almost identical. A more effective recovery strategy will be implemented to better track these revenues.

c) Administrative fees and costs

Administrative fees and costs have given unattractive trends with regards to their level of recovery amounting to 1, 5 billion FCFA, up from 2, 1 billion FCFA in 2017 at the same period. The execution of these revenues did not reach the target of 15 per cent in the first quarter. Despite the efforts made, far-reaching reforms are envisaged to make up for the inadequacies of supervision and the securing of administrative fees and costs, which are generally exposed to the risk of self-consumption, bribery and fraud.

Figure 4 Statement of mobilization of other revenues as of 31 March 2018



Source: ***DGB_DEP***

2.2 Execution of fiscal expenditures

The 2018 fiscal policy direction calls for spending discipline to be observed, in other words, a conduct of targeting expenditures based on whether they are mandatory, priority or not.

For a quarterly forecast of 287, 8 billion FCFA, fiscal expenditures are globally executed at 268,0 billion FCFA, corresponding to 93,1 per cent of the quarterly target.

2.2.1. Spending following the economic nature

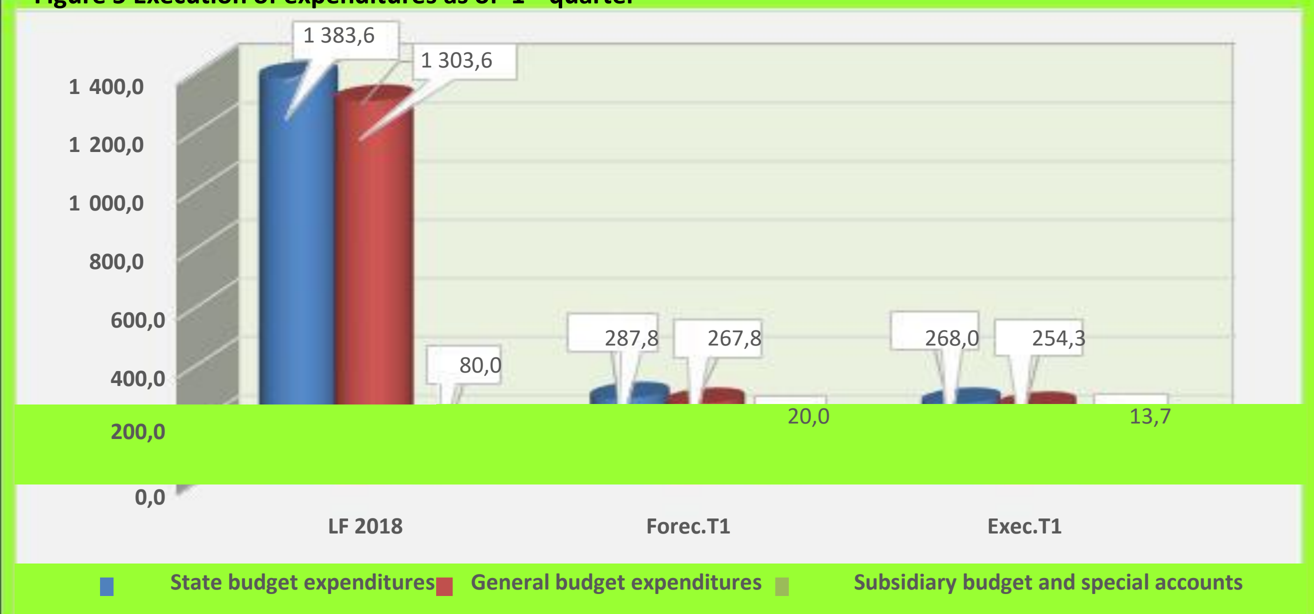
While remaining in the classification established by the regulation, expenditures are examined by economic nature and functional classification (see. section 15 of decree No. 2018-69 of 1 March 2018 on the nomenclature of the State budget).

Table 3: Execution of expenditures as of first quarter (in billion FCFA)

	LF 2018	Forec.T 1	Exec.T 1
State budget expenditures	**1 383,6**	**287,8**	**268,0**
General budget spending	1 303,6	267,8	254,3
Subsidiary budget and special accounts	80,0	20,0	13,7

*Source: **DGB_DEP***

Figure 5 Execution of expenditures as of 1st quarter



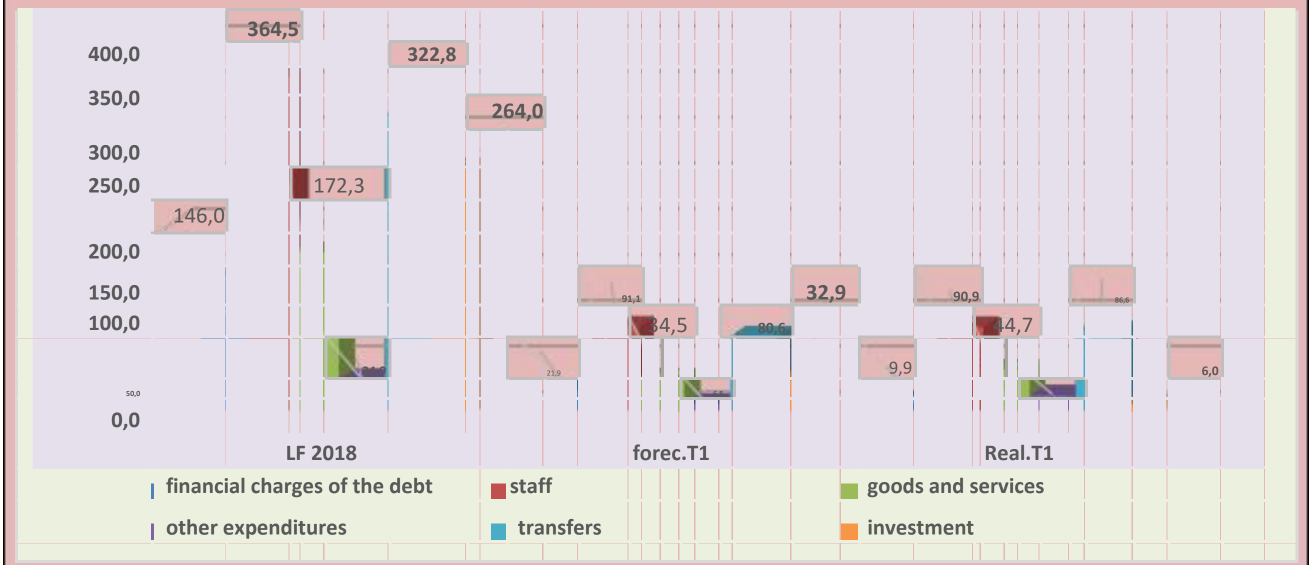
*Source: **DGB_DEP***

2.2.1.1. General budget

General budget expenditures amounted to 254, 3 billion FCFA for a quarterly forecast of 267, 8 FCFA, an execution rate of 95 per cent. Compared with the first quarter of 2017, this rate is down by 6, 3 points in relation to the low level of investment expenditures (16, 9 per cent of execution rate).

The figure below shows the detailed execution situation by nature of expenditures.

Figure 6 Execution by nature of expenditures as of 31 March 2018



Source : ***DGB_DEP***

a) Financial charges of the debt

The financial charges the of 2018 debt, classified as compulsory expenditures, are part of dynamics of the restructuring of THE public debt. Planned at 146,0 billion FCFA, this level one and a half time higher than 2017 financial charges, takes into account additional interest on the so-called traders' public debt, which, at a given period, was still managed under specific contracts concluded with the partners.

The proposed restructuring strategy has taken all the necessary steps to ensure that these financial charges are paid in good time. In the first quarter of 2018, financial expenditures paid, amounted to 9,9 billion FCFA for quarterly forecast of 21,9 billion FCFA, an execution rate of 45,2 per cent. This underperformance is explained by the situation of the cash which has generated arrears on the payment of external debt during the first quarter 2018.

b) Wages

Overall, wages rose from a level of 390,5 billion FCFA in 2017 to an annual forecast of 364,5 billion FCFA. This level of forecast requires an effort to reduce these expenditures by 26, 0 billion FCFA in 2018.

Established as compulsory expenditures, wages are regularly mandated per month at an average of 30, 1 billion FCFA, a decrease of 2, 4 billion FCFA each month compared to 2017. This declined is explained by the departure of retired State's employers on the one hand, and by the application of precautionary measures taken by introducing a double supervision of administrative acts with a financial impact by the State, pending the exploitation of the conclusions and recommendations of the last census.

Due to the contraction of State revenues, the wage bill has been adjusted to be indexed to the potential of tax revenues because of the volatility of oil revenues exposed to fluctuation in international oil prices. In order to meet this objective, important measures will be proposed and discussed as part of social dialogue.

As of 31 March, wages are executed at 90, 9 billion FCFA for a quarterly forecast of 91, 1 billion FCFA, an execution of 99, 8 Per cent.

According to the essential elements of wages of the central administration, this execution is as follows:

- Basic wages mandated at 60,5 billion FCFA;
- duty allowances executed at 11,2 billion FCFA;
- social security contributions ordered at 13,5 billion FCFA;
- end-of-career allowances executed at 0, 30 billion FCFA.

c) Goods and services

Expenditures on goods and services cover the operational costs of the Government. Mandated at 45, 4 billion FCFA in the first quarter 2018, of which 1, 9 billion FCFA, corresponding to one-month loan delegation orders with a parliamentary authorization of 25, 4 billion FCFA. This level of execution is slightly higher than that of 2017 of 3, 1 billion FCFA at the same period.

According to the major positions of this economic nature, the following trends emerge in the first quarter:

- purchase and goods mandated at 3,7 billion FCFA;
- interviews and repairs, executed at 0,3 billion FCFA;
- general operational expenditures ordered at 0,4 billion FCFA;

- services provided at 0,6 billion FCFA;
- rents and rental charges executed at 0,1 billion FCFA;
- representation and communication expenditures ordered at 0,1 billion FCFA;
- mission and transport expenditures mandated at 1,3 billion FCFA;
- unallocated expenses and allocations executed at 38,3 billion FCFA;
- medical evacuations, hospitalization and burial expenses ordered at 0,6 billion FCFA;

This level of execution, globally high, shows inequalities according to economic natures. The upward trend is driven by "unallocated expenditures" in relation to the holding of international conferences under the auspices of Congo in 2018 as well as the payment of spending of food and the stewardship of the public force. On the other hand, the low rate at the level of other positions is justified by: the delay in the execution of the finance law; the strict application of the conditions for the award of contracts and the launching of the order and the limitation of the use of derogating procedures to the exceptions provided in the regulations. The control of these expenditures will reinforce for their greater efficiency.

d) Transfers

Transfers include all the interventions that the State, as central Government, provides, among other things, subsidies to private persons, public or various organizations in view of reducing social, economic, educational and cultural distortions.

Projected at 80, 6 billion FCFA in the first quarter, they are executed at 86, 5 billion FCFA as of 31 March 2018, corresponding to an execution rate of 107, 3 per cent.

The major positions of the economic nature of transfers, give the following level of mandates:

- subsidy to public institutions executed at 15 billion FCFA;
- subsidies to local authorities executed at 1,9 billion FCFA;
- contributions of inter-State bodies and international organizations ordered at 0,9 billion FCFA;
- transfers to households executed at 0,861 billion FCFA.

e) Other expenditures (commun charges)

Mainly dedicated to public consumptions, the other spending are executed at 15,6 billion FCFA in the first quarter, for quarterly forecast of 6,8 billion FCFA. The main characteristic of this nature is its execution, which is often accelerated with regard to the annual envelop authorized.

The execution of credits of some positions of other charges is as follows:

- litigation costs mandated at 0,1 billion FCFA;
- civil liability costs of the State ordered at 0,2 billion FCFA;
- Allowance for possible and unforeseen expenditures executed at 12,9 billion FCFA
- fees, vacations and stamps executed at 1,1 billion FCFA.

Also, as can be seen, allowances for possible expenditures alone accounted for 84,3 per cent of the credits consumed in the first quarter.

f) Capital expenditures

The execution rate of the capital expenditures is low. During the first three months, these expenditures are executed at 6, 0 billion FCFA. In own resources, the amount to 5, 4 billion FCFA and in external resources to 0, 6 billion FCFA, representing a quarterly rate of 18, 2 per cent,

The main positions of the economic nature of capital expenditures are as follows:

- redeemable costs and intangibles assets totalling 3,4 billion FCFA, or 1,8 per cent;
- land and plantation executed at 0,1 billion FCFA, or 16,7;
- intangible assets ordered at 1,8 billion FCFA, or 2,3 per cent.

Improving the execution rate of capital expenditures will be achieved by revitalizing the cells of the market of the Ministries and timely achievements of conditions prior to drawing donations and loans related to investment projects . The delay in mobilizing budgetary supports due to the expectation of concluding programme with the International Monetary Fund, partly explains this low execution.

2.2.1.2. Expenditures of subsidiary budgets

Subsidiary budgets are a category of budget reserved for unincorporated administrative entities which, for efficiency purpose, mainly produce goods or services, giving rise to a payment of fees, such as the case of formalities centre of companies, craft national agency, reforestation of national service, inventory and management centre of forest and wild resources and, today the general delegation for major works, the Directorate

General of Public Contracts monitoring and Directorate General of Merchant Navy. In total, seven (07) subsidiary budgets are opened by the 2018 finance law.

In the first quarter, these expenditures are executed at 0, 3 billion FCFA for an annual forecast of 11, 8 billion FCFA, corresponding to an execution rate of 2, 5 per cent.

As these budgets are in principle balanced, their expenditures generally depend on the level of recovery carried out by the administrations concerned. This implies that these subsidiary budgets are experiencing real difficulties reflecting the decline in the activities.

Reforms are envisaged at this level to establish an effective policy of production of these specific goods and services.

2.2.1.3. Expenditures of special accounts of the Treasury (CST)

Like subsidiary budgets, the special accounts of the Treasury trace specific operations carried out by certain State services, financed by means of a particular revenue, which by its nature is directly related to the expenditures concerned; such as the area and felling taxes for the development programme of forest, wildlife, water and reforestation resources in the special trust account
"Forest fund", the information technology fee for the urbanization of information systems of financial departments, etc.

Ten (10) special accounts of the treasury (CST) covering various activities are opened by the 2018 finance law.

In the first quarter, the expenditures of CST are executed at 13, 4 billion FCFA. These include expenditures relating to "pension funds" including contributions from employers and workers for respective shares for amounts of 9,6 and 3,7 billion FCFA, on the one hand, and those related to CST "urbanization of information systems of financial departments" for 0,1 billion FCFA, on the other hand.

For their effectiveness, the management of CST will also be subject to budget reforms currently undertaken by the Government.

2.2.2. Expenditures following the socioeconomic destination

All budgetary expenditures can be presented according to their socioeconomic purpose by means of the functional classification (See sections 12 and 13 of the aforementioned decree No.2018-69). It provides for ten main functions for the State, in accordance with the decree establishing the State budget nomenclature, namely: 01 general services of public administrations; 02 defence; 03 order and public security; 04 economic affairs; 05 environmental protection; 06 housing and community amenities; 07 health; 08 leisure, culture and worship; 09 teaching; 10 social protection.

Table 4: Execution of expenditures by socioeconomic destination (*in billion FCFA)*				
	Forecasts		**Execution**	
	Amount	**per cent**	**Amount**	**per cent(*)**
General services of public administrations	428,9	31,00	113,7	26,5 per cent
Defence	166,9	12,06	51,1	30,6 per cent
Order and public security	61,8	4,47	13,8	22,3 per cent
Economic affairs	147,5	10,66	10,2	6,9 per cent
Environmental protection	6,0	0,43	0,3	5,0 per cent
Housing and collective amenities	64,6	4,67	1,4	2,2 per cent
Health	147,9	10,69	14,6	9,9 per cent
Leisure, culture and worship	28,6	2,07	5,6	19,6 per cent
Teaching	227,2	16,42	41,6	18,3 per cent
Social protection	104,2	7,53	15,8	15,2 per cent
Total	**1383,6**	**100,00**	**268,1**	**19,4 per cent**

(*) per cent of execution compared to forecasts Source : DGB

Overall, State spending in 2018 were set at 1, 383, 6 billion FCFA.

Depending on the socioeconomic destination, it turns out that State expenditures are more geared towards general government services (31 per cent). The teaching function is the second priority with a forecast rate of 16, 4 per cent. The defence "function" represents the third priority with 12,1 per cent of annual forecasts. These expenditures relate largely to the functioning of the military administration, with expenditures of goods and services accounting for 77, 8 per cent. It is followed by the health function (10, 5 per cent and economic affairs (10, 7 per cent). The other functions account for 19, 1 per cent of total expenditures driven by the socioeconomic destination "social protection" (7,5 per cent).

2.2.3. Social expenditures, structural benchmark

In order to preserve certain vulnerable social groups, generally exposed to the effects included by the adjustment, the sectors deemed sensitive are the subject of priority expenditures, called social spending with identified actions, among which, it is targeted:

- health and fight against diseases;
- basic education;

- development infrastructure;
- electricity, water and sanitation;
- social protection and employment;
- agriculture, fishing and breading
- women empowerment

2.2.3.1. Overview on social expenditure forecasts

For the 2018 fiscal year, the overall envelop of social expenditures, is adopted at the amount of 277,9 billion against 300,5 billion FCFA in 2017, down by 22,6 billion FCFA, representing a rate of 7,54 per cent. This envelope represents 20, 1 per cent of total budget expenditures.

It breaks down as follows:

a) Operational social expenditures (excluding staff costs):

Operational social expenditures are projected at 120,4 billion FCFA against 91,2 billion FCFA in 2017, an increase of 29,2 billion FCFA (32,0 per cent), in relation with the increase in transfer expenditures, which rose from 68,6 billion FCFA at 101,3 billion FCFA, or 32,6 billion FCFA corresponding at 47,6 per cent. This is explained by the reinforcement of free programmes that the Government has embarked on in recent years.

These expenditures are as follows:

- Goods and services……………... 19, 1 billion FCFA;
- Transfers ……………………… 101, 3 billion FCFA.

b) Social investment expenditures

Social investment expenditures were projected at 157, 5 billion FCFA against 2019,3 billion FCFA in 2017, a decrease of 51,9 billion FCFA, or 24,8 per cent.

C) Social expenditures by sector

The sectoral breakdown was as follows:

- Basic health and fight against diseases : 118,5 billion FCFA ;
- Basic education : 31,2 billion FCFA ;
- Infrastructure for opening up : 8,1 billion FCFA ;
- Electricity, Water and Sanitation: 69,9 billion FCFA ;
- Social protection and employment : 35,8 billion FCFA ;
- Agriculture, fishing and breading : 11,4 billion FCFA ;
- Women empowerment: 2,8 billion FCFA.

2.2.3.2. Execution of social expenditures as of 31 March 2018

Social expenditures are executed at 22, 5 billion FCFA for a projected envelop of 277, 9 billion FCFA, a rate of 8,1 per cent. Execution mainly concerns actions related to the basic health sector and fight against diseases, for a rate of 8,6 per cent.

a) Social expenditures by nature

The execution of social expenditures as of 31 March 2018 shows the following overall trend:

- Expenditures on goods and services executed at 1,4 billion FCFA, an execution of 7,9 per cent;
- Transfers ordered at 19, 1 billion FCFA, or an execution rate of 18 per cent.
- The investment component is executed at 2, 0 billion FCFA, or 1, 3 per cent of projections.

b) Social expenditures by sector

The sectoral execution of social expenditures can be summed up as follows:

- *Basic health and fight against diseases:*

This sector experienced a level of execution of 10, 4 billion FCFA for an envelope of 118, 5 billion FCFA, or 8, 6 per cent. This level of execution was mainly driven by the revitalization of health districts, 83,3 per cent.

- *Basic education*

This sector had a level of execution of 3,5 billion FCFA for an envelope of 31,2 billion FCFA, 11,2 per cent. This execution was mainly driven by the programmes of school canteens, 74,3 per cent.

- *Infrastructure for opening up:*

The level of execution of actions retained in this sector is 1, 0 billion FCFA out of 8,1 billion FCFA of projections, corresponding to an execution rate of 12,4 per cent. This rate is mainly marked by actions related to the construction and rehabilitation of rural and agricultural roads through the programme for Agricultural development and rehabilitation of rural roads.

- *Electricity, Water and Sanitation*

This sector had a level of execution of 5, 4 billion FCFA for a projected envelop of 69, 9 billion FCFA, a rate of 7, 7 per cent. This rate is attributable to expenditures rebated to sanitation in the cities of Brazzaville and Pointe-Noire for the first quarter 2018 for an amount of 4, 9 billion of FCFA, 90, 7 per cent of execution.

- *Social protection and employment:*

For a projection of 35, 8 billion FCFA, this sector had a level of execution of 1, 3 billion of FCFA, a rate of 3, 6 per cent. This level is mainly due to the care of vulnerable people and street children (92, 3 per cent of executions).

- *Agriculture, fishing and animal Rearing:*

For a projection of 11, 4 billion FCFA, the execution is 0, 8 billion FCFA (7, 2 per cent of executions).

- *Women empowerment:*

This sector had a level of execution of 0, 3 billion FCFA for an envelope of 2,8 billion FCFA, an execution rate of 10,6 per cent.

EVOLUTION OF FISCAL BALANCES IN THE FIRST QUARTER

Three fiscal balances are highlighted to assess fiscal and financial governance efforts. These are: overall fiscal balance, basic primary balance and non-oil basic primary balance.

1. Overall fiscal balance

The comparison of the recovered receipts with the ordered expenditures, brings out a surplus overall fiscal balance of 23, 0 billion FCFA for a projection of a surplus balance of 78, 6 billion FCFA in the first quarter, 29, 6 per cent of the projected quarterly target.

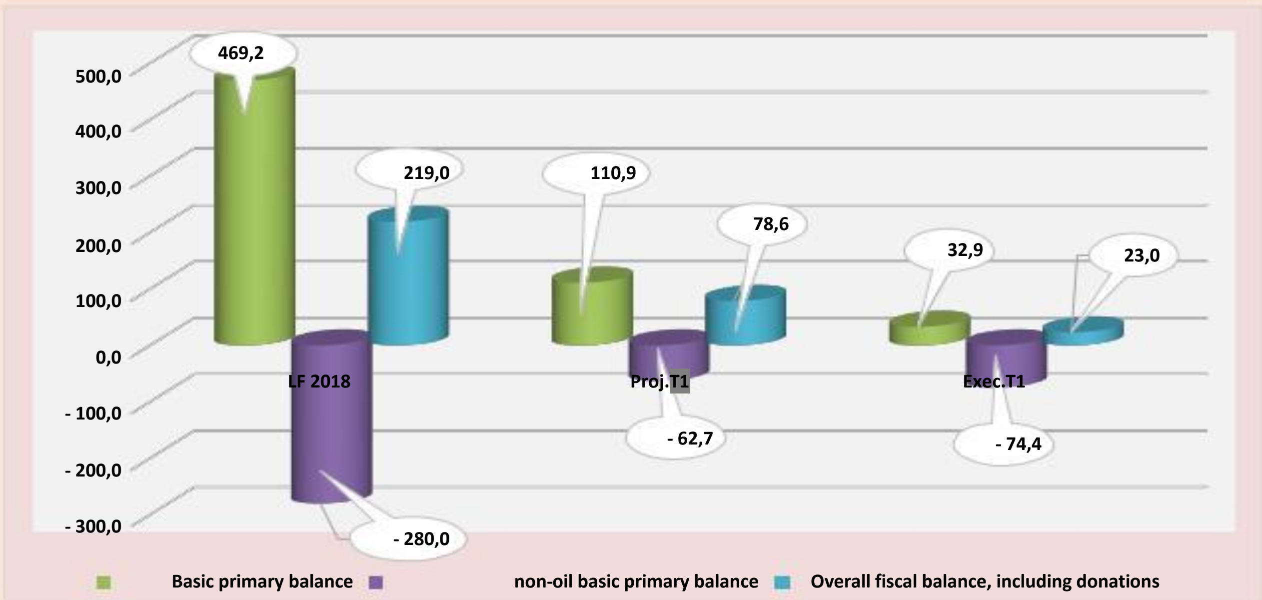
2. Basic primary balance

This balance makes it possible to measure the capacity of the State to cover with its own resources all of its current expenditures and investment on freely assignable means (MLA). It reached 32, 9 billion FCFA on a quarterly projected target of 110, 9 billion FCFA, a rate of 29, 7 per cent.

3. Non-oil basic primary balance

This analytical balance makes it possible to measure the capacity of the State to cover its expenses from tax revenue without resorting to oil revenue because of their volatility. It also measures the resilience of the economy. On a forecast objective of the balance of -62, 7 billion FCFA, a deficit fiscal balance of -34, 2 billion FCFA is executed. **This fiscal balance is one of the criteria to be respected in the perspective of a programme with the IMF.**

Figure 7: Fiscal balance



Source: ***DGB_DEP***

Given the overall trends in budget execution as of March 31 2018, risks of slippage are not excluded, especially with regard to goods and services, common expenses and transfers. In order to hope to achieve in the best conditions the objectives at the end of June of the review scheduled for September in the perspective of an Agreement programme with the IMF, it is advisable to encourage low-level budgetary expenditures by slowing those for which rates are high.

TREASURY OPERATIONS IN THE FIRST QUARTER

1. Execution of cash resource operations

The 2018 finance law provided for cash resource operations. First, the project provides for 219, 0 billion FCFA to cover cash costs. In addition, it is expected project loans for an amount of 104, 2 billion FCFA. Lastly, other financing will come from the contributions of the financial development partners for a amount of 560,0 billion FCFA.

1.1 Resources at the domestic level

In the first quarter, cash resources are mobilized to the tune of 5,0 billion FCFA for the depreciation of loans granted by the State.

1.2 Resources expected from partners

Expected contributions from financial development partners are slow in coming. Their mobilization is linked, on the one hand, to the conclusion of the programme with the IMF, on the other hand to the strategy of restructuring of the public debt, which is being finalized. Other resources would come from budget support of the World Bank and African Development Bank for which the matrix of conditions (measures to be carried out) has just been examined in cabinet meeting.

2. Execution of operation of cash expenses

They mainly concern the depreciation of the public debt.

2.1 Depreciation of the public debt

It is assured a payment of 91,7 billion FCFA from the repayment of the external debt principal owed in the first quarter for a projection of 16,1 billion FCFA corresponding to 54,8 per cent. It should be noted that a major effort is being made on own funds since part of the depreciation owed in 2018 will have to be treated as part of the public debt restructuring strategy. Over the three first months, the payment represents 15, 2 per cent of the annual depreciation owed.

2.2 Depreciation of the public debt

Projected at 128, 5 billion FCFA in 2018, the domestic debt is paid for an amount of 98, 9 billion FCFA, indicating an execution rate of 76, 9 per cent mainly related to the payment of arrears accumulated over previous years.

Domestic debt management remains subject to an ongoing audit, which will result in a clearance plan. The annual depreciation of domestic debt currently amounts to 128, 5 billion FCFA. It implies that significant efforts are being made amid a clearance strategy.

3. Cash balance and financing need

The difference between cash resources and the expenditures related generates a residual balance deficit of 37, 8 billion FCFA.

Table 5: Cash Situation

	Proj 2018	T1			per cent exec bud
		Proj	Exec.	per cent exec.T1	
II,- FUNDING	**-778,9**	**-206,7**	**-164,5**	**79,58**	**21,12**
II.1- NET EXTERNAL	**-403,7**	**-156,7**	**-91,7**	**58,52**	**22,71**
Project loans (external resources allocated)	104,2	10,4	0,0	0,00	0,00
Depreciated owed	-603,9	-167,1	-91,7	54,88	15,18
Others (foreign deposits)	96,0	0,0	0,0		0,00
II.1- NET INTERNAL	**-375,2**	**-50,0**	**-72,8**	**145,60**	**19,40**
Net bank system	-246,7	-50,0	21,1	-42,20	-8,55
Non banking	-128,5	0,0	-93,9		73,07
exceptional oil revenue	0,0	0,0	0,0		
CMLT loan products	0,0	0,0	0,0		
Issue and sale of bonds and treasury bills	0,0	0,0	0,0		
Repayment of loans and advances granted	0,0	0,0	5,0		
Repayment of invitation to tender	0,0	0,0	0,0		
Repayment domestic debt loans	-128,5	0,0	-98,9		76,96
OVERALL FINANCING GAP	**-559,9**	**-128,1**	**-37,8**	**29,51**	**6,75**

Source: ***CCA_DEP***

However, it should be noted that the execution of the State budget in the first quarter 2018 resulted in the accumulation of domestic arrears of 63,5 billion FCFA against a target of zero arrears.

Clearly, there is a need to ensure real budget safeguard with a monitoring mechanism that will require the development of a commitment plan in conjunction with a cash plan developed by the Government.

APPENDIX

TABLE OF FINANCIAL OPERATIONS OF THE STATE AS OF FIRST QUARTER

NATURE OF REVENUES AND EXPENDITURES	FORECASTS 2018	T1 Proj	T1 Exec.	T1 per cent exec.T1	per cent exec bud
A.- STATE BUDGET	**1 602,6**	**366,4**	**291,0**	**79,42**	**18,16**
A.1- Budgetary resources	**1 602,6**	**366,4**	**291,0**	**79,42**	**18,16**
Tax revenue	**754,6**	**174,1**	**166,4**	**95,58**	**22,05**
Domestic tax and duties	633,1	146,1	143,8	98,43	22,71
Customs tax and duties	121,5	28,0	22,6	80,71	18,60
Donations, legacy and assistance funds	**29,2**	**2,9**	**0,6**	**20,69**	**2,05**
Donations and legacy	29,2	2,9	0,6	20,69	2,05
Other revenues	**818,8**	**189,4**	**124,0**	**65,47**	**15,14**
sale of cargoes	659,7	154,6	94,4	61,06	14,31
Marketing products (oil taxation)	81,5	19,0	12,9	67,89	15,83
Oil bonus	8,0	0,0	0,0		0,00
Others	0,0	0,0	5,2		
Fees and administrative costs	12,2	1,8	1,5	83,33	12,30
Interests of loans	3,3	0,5	0,6	120,00	18,18
Social security contributions	54,1	13,5	9,4	69,63	*17,38*
A.2- Budgetary spending	**1 383,6**	**287,8**	**268,0**	**93,12**	**19,37**
2.1 Ordinary spending	**1 039,6**	**234,9**	**248,3**	**105,70**	**23,88**
staff	364,5	91,1	90,9	99,78	24,94
Other ordinary expenditures	***675,1***	***143,8***	***157,4***	***109,46***	***23,32***
goods and services	172,3	34,5	44,7	129,57	25,94
other expenditures	34,0	6,8	16,2	238,24	47,65
transfers	322,8	80,6	86,6	107,44	26,83
Usual transfer	295,9	73,9	84,7	114,61	28,62
Local authorities	26,9	6,7	1,9	28,36	7,06
financial charges of the debt	146,0	21,9	9,9	45,21	6,78
Domestic debt interests	24,5	3,7	2,9	78,38	11,84
Domestic debt interests	121,5	18,2	7,0	38,46	5,76
2.2.- investment	**264,0**	**32,9**	**6,0**	**18,24**	**2,27**
on domestic resource	*130,6*	*19,6*	*5,4*	*27,55*	*4,13*
on external resources	*133,4*	*13,3*	*0,6*	*4,51*	*0,45*
B.- SUBSIDIARY BUDGETS AND SPECIAL ACCOUNTS OF THE TREASURY	**80,0**	**20,0**	**13,7**	**68,50**	**17,13**
Primary balance	365,0	100,5	32,9	32,74	9,01
non-oil primary balance	**-384,2**	**-73,1**	**-74,4**	**101,78**	**19,36**
Basic primary balance	**469,2**	**110,9**	**32,9**	**29,67**	**7,01**
Non-oil primary balance	**-280,0**	**-62,7**	**-74,4**	**118,66**	**26,57**
Overall fiscal balance, Donations included	**219,0**	**78,6**	**23,0**	**29,26**	**10,50**
Overall fiscal balance, donations included	**189,8**	**75,7**	**22,4**	**29,59**	**11,80**
Non-oil overall fiscal balance	**-530,2**	**-95,0**	**-84,3**	**88,74**	**15,90**
NET VARIATION OF ARREARS	**0,0**	**0,0**	**103,7**		
- Variation of external arrears	**0,0**	**0,0**	**40,2**		
- Accumulation of external arrears	0,0	0,0	40,2		
-Reduction of external arrears	0,0	0,0	0,0		
- Variation of domestic arrears	**0,0**	**0,0**	**63,5**		
- Accumulation of domestic arrears	0,0	0,0	63,5		
-Reduction of domestic arrears	0,0	0,0	0,0		
FUND BASE BALANCE	**219,0**	**78,6**	**126,7**	**161,20**	**57,85**
II,- FUNDING	**-778,9**	**-206,7**	**-164,5**	**79,58**	**21,12**
II.1- NET EXTERNAL	**-403,7**	**-156,7**	**-91,7**	**58,52**	**22,71**
Project loans (external resources allocated)	104,2	10,4	0,0	0,00	0,00
Depreciated owed	-603,9	-167,1	-91,7	54,88	15,18
Others (foreign deposits)	96,0	0,0	0,0		0,00
II.1- NET INTERNAL	**-375,2**	**-50,0**	**-72,8**	**145,60**	**19,40**
Net bank system	-246,7	-50,0	21,1	-42,20	-8,55
Non banking	-128,5	0,0	-93,9		73,07
exceptional oil revenue	0,0	0,0	0,0		
CMLT loan products	0,0	0,0	0,0		
Issue and sale of bonds and treasury bills	0,0	0,0	0,0		
Repayment of loans and advances granted	0,0	0,0	5,0		
Repayment of invitation to tender	0,0	0,0	0,0		
Repayment domestic debt loans	-128,5	0,0	-98,9		76,96
OVERALL FINANCING GAP	**-559,9**	**-128,1**	**-37,8**	**29,51**	**6,75**